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Helping the FARMER PAY HIS DEBTS

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FARM CREDIT ADMINISTRATION

W. I. Myers, Governor

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Efficiency May Be Increased by the Wise Use of Credit.

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SUCCESSFUL USE OF CREDIT should enable borrowers to reduce their indebtedness. Loan policies of all credit institutions under the supervision of the Farm Credit Administration are based on this principle. 3

DEBT PAYMENTS, farmers find, are their best investment. Interest on their indebtedness is higher than the return obtainable on other safe investments and there is less risk of losing the principal when invested in their debts. 4

LONG-TERM FARM MORTGAGE LOANS which may be paid off slowly are necessitated by the slow turnover characteristic of most agricultural operations. The Federal land banks, therefore, make loans for from 20- to 30-odd years. These loans are easier to repay, eliminate costly renewals, and reduce interest charges. 5

SCALE-DOWNS BY CREDITORS are made on a voluntary basis. Such scale-downs frequently enable farmers, who would otherwise be ineligible, to obtain loans through the Federal land banks. 8

SHORT-TERM PRODUCTION LOANS are made by the 600 production credit associations which have been organized to provide credit especially adapted to farmers' needs. Loans bear low interest rates. Maturities are dated to coincide with the marketing of crops or livestock financed. 10

LOANS USED TO PAY CASH for purchases reduce farmers' production costs. 11

BUDGET LOANS AND PLANNED REPAYMENTS reduce costs and help farmers to retire their debts. 12

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LOANS TO FARMERS' COOPERATIVES reduce marketing costs and the cost of supplies purchased through them by helping to increase their operating efficiency. 14

COOPERATIVE CREDIT INSTITUTIONS under the Farm Credit Administration are operated for the benefit of their farmer members and, therefore, endeavor to help them, through the efficient use of low-cost credit, gradually and systematically to pay off their debts. 15

Planned Financing Enables Farmers to Reduce Their Debts.

HELPING THE FARMER PAY HIS DEBTS

MOST of the 700,000 farmers in the United States who have borrowed from the permanent credit institutions now under the supervision of the Farm Credit Administration have improved their financial condition greatly. This improvement is helping them to pay off their debts gradually and systematically.

These credit institutions make loans with the thought constantly in mind that credit, to be successfully used, should enable the borrowers to reduce their indebtedness. Loans should enable the borrower so to conduct his business as to make it more profitable than would otherwise have been possible. Then the borrower not only can repay his loan, but may obtain greater returns for his labor and management. The various types of loans made by credit units under the supervision of the Farm Credit Administration are designed to help the farmer-borrower accomplish this aim.

Three Types of Loans Available

Credit available through these various institutions falls into three major classes. The Federal land banks make first mortgage loans on farm real estate directly and through the national farm-loan associations. They act as agents for the Land Bank Commissioner in making loans on security of first or second mortgages. Farmers obtain short-term and intermediate credit through production credit associations, which obtain funds by discounting farmers' notes with the Federal intermediate credit banks. Farmers' cooperative associations generally obtain their credit requirements from the district bank for cooperatives or from the district Federal intermediate credit bank. A cen-

Payments on Debts Are Best Investment.

tral bank for cooperatives has been set up in Washington, D. C., to meet the credit requirements of the large national cooperative associations.

Farmers realize the importance of reducing their debts as rapidly as possible by means of a system of planned financing. The smaller the debt load a farmer carries, the easier it is for him to weather years of poor crops or low prices because smaller cash outlays for interest charges and principal payments will be necessary.

Retirement of Debt Is Best Investment

A farmer who uses surplus cash to pay off his debts usually is making the best possible investment of his money. This principle, although of great importance, is not always recognized. First, the interest rates on his indebtedness are higher than the return obtainable on other safe investments. Second, there is little risk of his losing money he invests in the payment of his debts, while the possibility of the loss of principal as well as the suspension of interest payments is generally present in the case of most other investments.

Payments Indicate Progress

Farmers and stockmen realize that even small payments on their debts are very definite indications of progress toward the goal of sole ownership of their farm businesses. Of even greater importance to the farmer or stockman is the fact that by reducing his debts over a period of years he is building a credit standing that will enable him to borrow when it is necessary to meet emergencies or to take advantage of favorable conditions.

The ability to borrow when an occasion arises frequently makes possible larger profits. For example, it might enable a farmer in the Corn Belt to buy feeder cattle to use his corn and other feed during the winter, and to make an additional profit from

Farmers with Good Credit Ratings Can Borrow When They Need Cash.

his farm operations by providing winter work for his hired men.

A record of prompt payment of debts and the reduction of indebtedness outstanding, not only strengthens an individual's rating with all credit agencies, but results in a higher regard for the individual in his community.

Slow Turnover in Farming

Because of the biological nature of most farm operations and the variations in weather which influence agricultural production, the turnover of a farmer's investment is slow and the profits in any one year may be very small. In addition, farmers are influenced by the general economic conditions that affect other industries, but usually to a greater degree.

The Federal land banks, by making amortized farm mortgage loans—loans which are retired by semiannual or annual payments on the principal—take these factors into consideration. The farmer is not asked or expected to repay his entire farm mortgage loan at the end of a period of 3 to 5 years.

On the other hand, the farmer who receives a 20- to 30-odd year loan does not ignore the principal until the end of the loan period. At the end of the period stated in the mortgage, the entire loan will be repaid as a result of the small semiannual or annual installments. The farm will then be free from mortgage debt.

Long-Term Loans Paid off Slowly

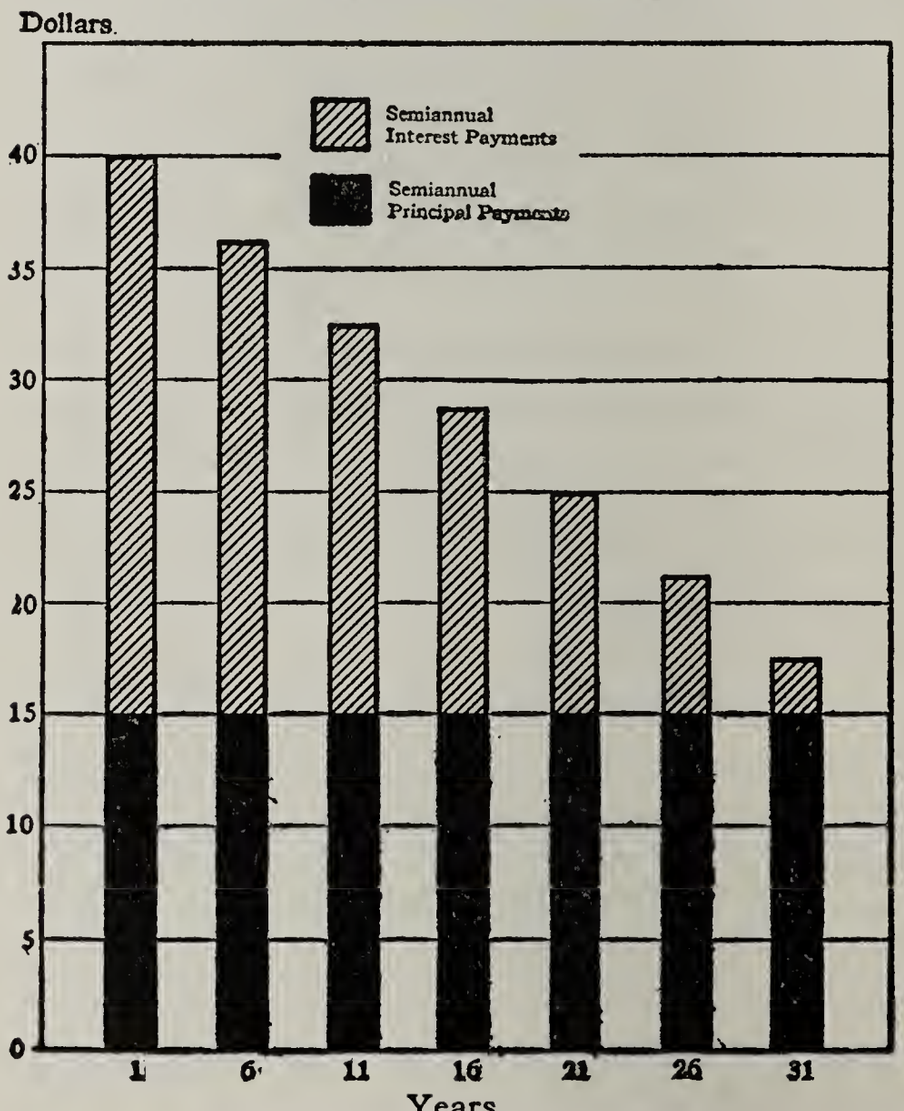
An amortized farm mortgage loan not only helps the farmer systematically and gradually to work himself out of debt by periodic payments on the principal, but it gives him definite financial assistance in meeting these principal payments. Each payment made on the principal of a Federal land bank or Commissioner's loan reduces the interest costs in succeeding years.

Slow Turnover in Farming Necessitates Long-Term Loans.

For example, the borrower pays a total of only $845.63 interest on a $1,000 Federal land bank loan, that is amortized on what is known as the "Springfield plan", over a period of 33 years with semiannual installments at 5 percent interest. On a straight loan on which no principal payments are made, the interest charges over the same period would amount to $1,650. The saving of $804.37 is enough to repay more than 80 percent of the principal of the loan. Stated in another way, the savings in interest on a $1,000 amortized loan pay all but $195.63 of the principal. Farmer-borrowers

INTEREST PAYMENTS ON AN AMORTIZED LOAN DECLINE AS PRINCIPAL PAYMENTS ARE MADE

Semiannual Interest and Principal Payments on a 33-Year Loan 5-Percent Interest, Amortized on Springfield Plan.



Frequent Renewals of Loans Are Costly.

are able to use the money they save on interest on the loans from the Federal land banks to apply on the loan itself. Thus each principal payment makes it that much easier to repay the balance of the loan.

Renewals Costly

Farmers borrowing from the usual sources on security of farm mortgages frequently have to renew their mortgages or get new mortgages. This in itself is a costly procedure because of the money, time, and worry involved. There is always the possibility that the mortgageholder will be unable or unwilling to renew the mortgage when it comes due. While such an occurrence is costly and bothersome in normal times, it is not usually serious because the sources of farm mortgage credit are numerous and it is not difficult for the borrower to get a new mortgage; but when a mortgage matures during a depression or after an exceptionally poor year, the farmer may find it extremely difficult to renew the mortgage or get a new one.

Farmers Save on Interest

The low interest costs on farm mortgage loans made through the Federal land banks is another way in which the banks are helping farmers ease their debt burden. Farmers who have refinanced their indebtedness through these banks are saving 24 percent annually in interest charges on interest-bearing debts refinanced.

An interest rate of 5 percent on Federal land bank loans made through national farm loan associations is charged on the unpaid balance of the principal, but on all loans made prior to May 12, 1935, the rate is reduced to 4½ percent until July 11, 1938. Interest on loans made directly by the banks, in localities where the national farm loan associations are not making loans, is one-half of

Federal Land Bank Loans Reduce Interest Charges.

one percent higher. The rate on Commissioner's loans is uniformly 5 percent.

Size of Loans Limited by Law

According to the law, both the Federal land banks and the Land Bank Commissioner are limited in the maximum amounts they may loan on an individual farm. The Federal land banks may lend on security of first mortgages not more than 50 percent of the appraised normal value of the land for agricultural purposes, plus 20 percent of the value of the insured improvements thereon. Commissioner's loans may be either first or second mortgage loans, but may not total more than $7,500. They are limited when taken as first mortgages, or when added to a previous lien, to a total of not more than 75 percent of the value of the property.

Some Debts Scaled Down

Many farmers have found these limitations prevent the Federal land banks and the Land Bank Commissioner from granting loans large enough to refinance their large accumulation of debts. Frequently, however, farmers' creditors have found it advantageous to agree to a scale-down of their claims to make it possible to refinance the farmers' debts through loans offered by the Federal land bank and the Land Bank Commissioner.

Such reductions have been made by creditors in connection with about 16 percent of the loans made under the present refinancing program. These reductions have amounted to about 26 percent of the former indebtedness of the borrowers receiving the scale-downs. The outstanding indebtedness of farmers borrowing through Federal land banks has been reduced to a point where it may be reasonably expected that they will be able to meet the carrying charges and repay the principal of their

Many Creditors Have Reduced Their Claims Against Farmers.

loans over a period of years. Scale-downs also leave farmers with a distinct equity in their farm business which encourages them in their efforts slowly to clear their farms of debt.

Appraisals Based on "Normal Value"

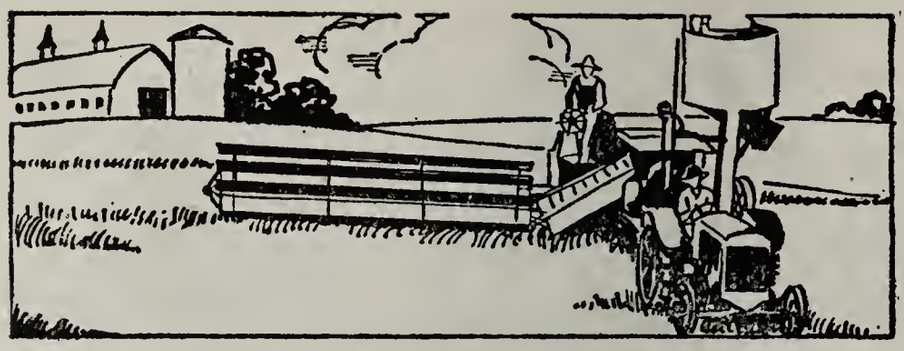
The law required the Federal land banks to base their appraisals on the normal value of the land for agricultural purposes. The term "normal value" has been taken by the banks to mean the value of the farm based on what the owner is producing on the farm and the normal prices of these products. The average of 1909 to 1914 prices for farm products is taken as normal. Any permanent change in the relative economic position of products produced is, of course, taken into consideration. Loans, therefore, are made on the basis of the normal income that a farm may be expected to return over a period of years.

By using this basis of appraisal, the banks are not being influenced by temporarily low prices of farm commodities, but are loaning on the prospective earning capacity of the farm for the period of the loan rather than on the basis of present conditions. Continuing use of this basis of appraisal in the years to come will prevent overloaning during prosperous years.

Policy Is Important to Borrower

Such a policy is of extreme importance to the farmer-borrower because it recognizes the fact that loans should not be made on the basis of present conditions but on conditions that are likely to exist as an average during the period when the farmer is repaying his loan.

Over a period of years, it is expected farmers will receive, on the average, prices equal to those received during the normal period, 1909–14, and returns ordinarily should adequately provide for repayment of the loan and interest.



Federal Land Banks Loan on Normal Value of Land.

Overloaning in prosperous years frequently results in the lending agency losing its investment and the farmer losing his farm. In overloading a farmer with debt the carrying charges become so large; he is unable to meet them in addition to being unable to repay the principal.

Over 600 PCA's Organized

In addition to the facilities for obtaining mortgage loans on favorable terms through the Federal land banks, farmers in every agricultural county in the country now have the opportunity to get loans for their yearly production expenses at low costs through the 600 cooperatively operated production credit associations organized under the supervision of the Farm Credit Administration during the past year. Production credit associations are enabling farmers to obtain short-term credit to finance the growing, harvesting, and marketing of crops and the carrying on of their livestock operations, as well as for general agricultural purposes.

These farmer-controlled cooperative credit institutions have introduced many features to reduce the cost of short-term credit to help their members use credit profitably. In some cases borrowers are using such profits to pay off interest and principal on their long-term debts.

Interest Rates Low

Naturally enough, the greatest savings from these associations come through reduced interest costs. The most important factor in these reduced charges is the extremely low interest rate. When the associations were first organized, the rate on these loans was 6 percent.

Because of the high regard of the investing public for the debentures of the Federal intermediate credit banks and the extremely favorable conditions in the financial markets, the banks were able to sell their debentures at low interest rates

Over 600 PCA's Make Short-Term Loans.

in the spring of 1934, which made it possible for them to make two reductions in the discount rates charged production credit associations and other credit institutions. The production credit associations passed these reductions on to their farmer-members. The interest rate on short-term loans at the present time, February 10, 1935, is 5 percent a year.

Interest Charged on Annual Basis

Not only is the interest rate on loans by production credit associations low, but interest is charged on an annual basis and is payable when the loans become due, rather than being deducted in advance. Farmers have the use of their loans when they need it and are not required to pay interest on money until it is actually advanced. These features have greatly reduced the actual interest costs to the borrower.

Use Loans to Pay Cash

Many farmers in all parts of the country have used their loans from production credit associations to pay cash for their purchases from storekeepers, merchants, feed and fertilizer dealers, machinery dealers, and others. Not only have these cash payments been welcome to those with whom farmers do business, but they represent large savings to farmer-borrowers.

Recent studies by agricultural colleges indicate that credit obtained in the form of open book accounts with storekeepers, merchants, and dealers usually costs from 10 to 20 percent, and frequently more, in the form of the higher prices charged to those who purchase on time. Credit from such sources is expensive because dealers and merchants are primarily engaged in selling goods and are not equipped to handle credit efficiently. Thus, the borrowers from production credit associations who pay cash for their purchases are able to use the savings for other purposes.

Farmers Reduce Costs by Using Loans to Pay Cash.

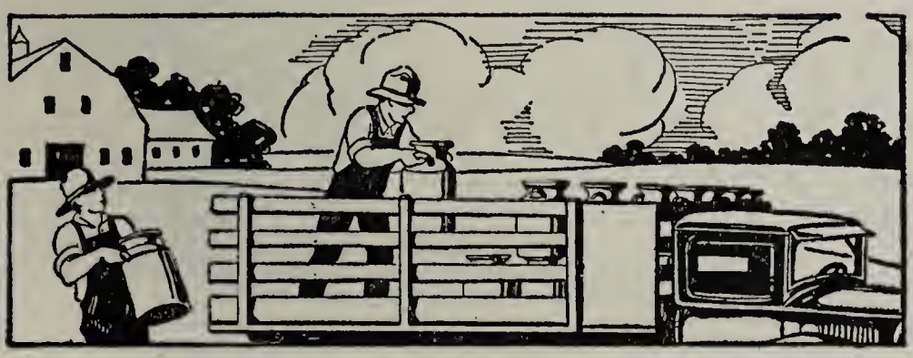
Production credit associations have made provisions enabling farmers to borrow on what is commonly known as a budget basis. By planning their expenditures in advance, farmers may arrange to receive their loans in installments as the money is needed. Since interest is charged on each advance only for the time the farmer actually has the money, interest costs are even further reduced.

Farmers Save on Budget Loans

The budget basis of borrowing not only enables farmers to reduce their production cost, but it is a distinct help to the farmer in determining how much to borrow. Such loans also assure the borrower the money will be available when he really needs it to meet his expenses. For instance, the farmer who needs $2,000 to raise his potato crop, instead of borrowing the total in the spring and paying interest on the entire amount for the full period, finds that by planning his expenditures in advance he can get his loan in three installments, $1,000 at the beginning of the season for 6 months, on which the interest is $25.00; later in the season another installment of $600 for 3 months, and one of $400 for 1 month. The interest on the second and third advances would amount to $7.50 and $1.67, respectively, or a total of $34.17 for all advances, compared to $50 interest that he would have to pay if he borrowed the entire $2,000 for 6 months. This alone represents a saving of $15.83, or about 32 percent of his interest charge.

Farmers Plan Repayment

In an effort to help farmers in their program of reducing indebtedness, production credit associations help farmers in making definite plans for repayment of their loans. Before a loan is made the farmer submits a definite plan of repayment to his association.



Farmers Repay PCA Loans When They Market Their Products.

Since the loans are expected to be of a self-liquidating nature, they are dated to mature when the borrowers intend to market their products. Thus the farmer who borrows on his cotton crop in the spring will have a loan that matures in the fall when he normally expects to sell his crop. Definite plans of repayment, and the dating of loans to mature at the proper time, not only help farmers to pay off their indebtedness, but eliminate the anxiety and excessive costs of frequent extensions and renewals.

In the case of dairy farmers receiving loans from production credit associations, they usually plan to make regular payments out of their monthly milk and cream checks. Each of these payments performs the twofold object of reducing the amount of the farmer's indebtedness and at the same time reducing the interest charges on his unpaid balance.

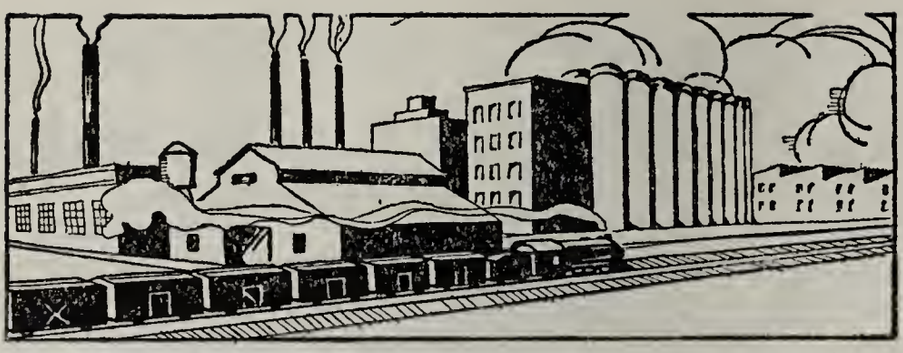
Chattel Mortgage Fees Reduced

The actual cost of short-term credit to farmers includes costs other than the interest charges and inspection fees charged by lending institutions. In some States, fees charged by county officials or attorneys in connection with title searches and filing and recording chattel mortgages and liens are excessive.

The Farm Credit Administration has cooperated with other agencies to get such fees reduced to reasonably nominal figures. Eleven States have passed laws amending regulations pertaining to chattel mortgages and crop liens. These amendments have, in most instances, materially reduced costs of obtaining short-term and intermediate credit from various sources.

Farmers Keep Records

Production credit associations are also endeavoring to help farmers know and understand their own



Banks for Cooperatives Make Loans to Farmers' Cooperatives.

financial condition by encouraging them to keep records and take farm inventories. A farm inventory not only shows the farmer what progress he is making toward owning his farm free from debt, but it is a basis for financial statements that helps him obtain short-term loans when needed.

Farmers Use Credit Wisely

Farmers realize the necessity of using their credit wisely. They know credit should be used only for such enterprises as will repay their loans with interest and leave them a profit. This, of course, makes it necessary for a farmer to limit his borrowing to the amount of money actually needed.

Farmers also know it is unwise to borrow in anticipation of profits and use the money to buy luxuries. Such borrowing proves disastrous when profits do not materialize with which to repay the loan and interest.

Loans Made to Cooperatives

Any saving or additional profit a farmer accumulates makes it that much easier for him to reduce his financial load. By providing credit to farmers' marketing and purchasing cooperatives through the Federal intermediate credit banks and banks for cooperatives, the Farm Credit Administration is endeavoring to help farmers make additional profits through more efficient operation of these organizations.

For example, a loan from the Springfield Bank for Cooperatives was in a large measure responsible for making possible the construction of a large farmers' market located at Menands, N. Y., a town near Albany and Troy. The market already has greatly increased farmers' ability to market their products efficiently.

In the case of farmers' purchasing associations many of the loans from the banks for cooperatives

Cooperative Credit Units Make Available Low-Cost Credit of Financial Centers.

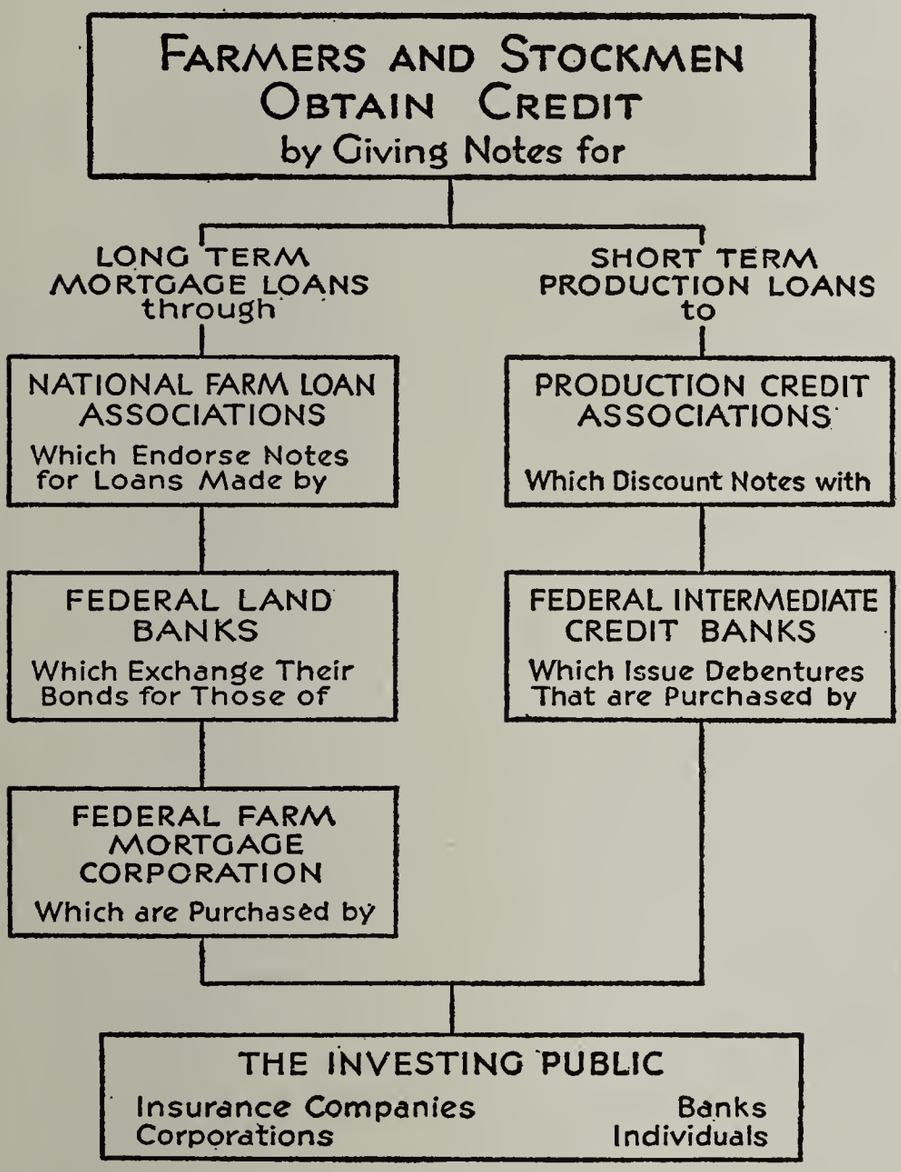
have made possible the buying of supplies, feed, fertilizer, and other materials at lower prices by purchasing in larger quantities and paying cash. This results in reduced costs to their farmer-members.

Credit Units Cooperatively Operated

All of the permanent credit institutions under the supervision of the Farm Credit Administration have been set up on a cooperative basis.

Thus the ownership of these credit units is partially in the hands of the borrowers, who are

CREDIT COOPERATIVES GIVE FARMERS ACCESS TO LOW-COST CREDIT OF FINANCIAL CENTERS

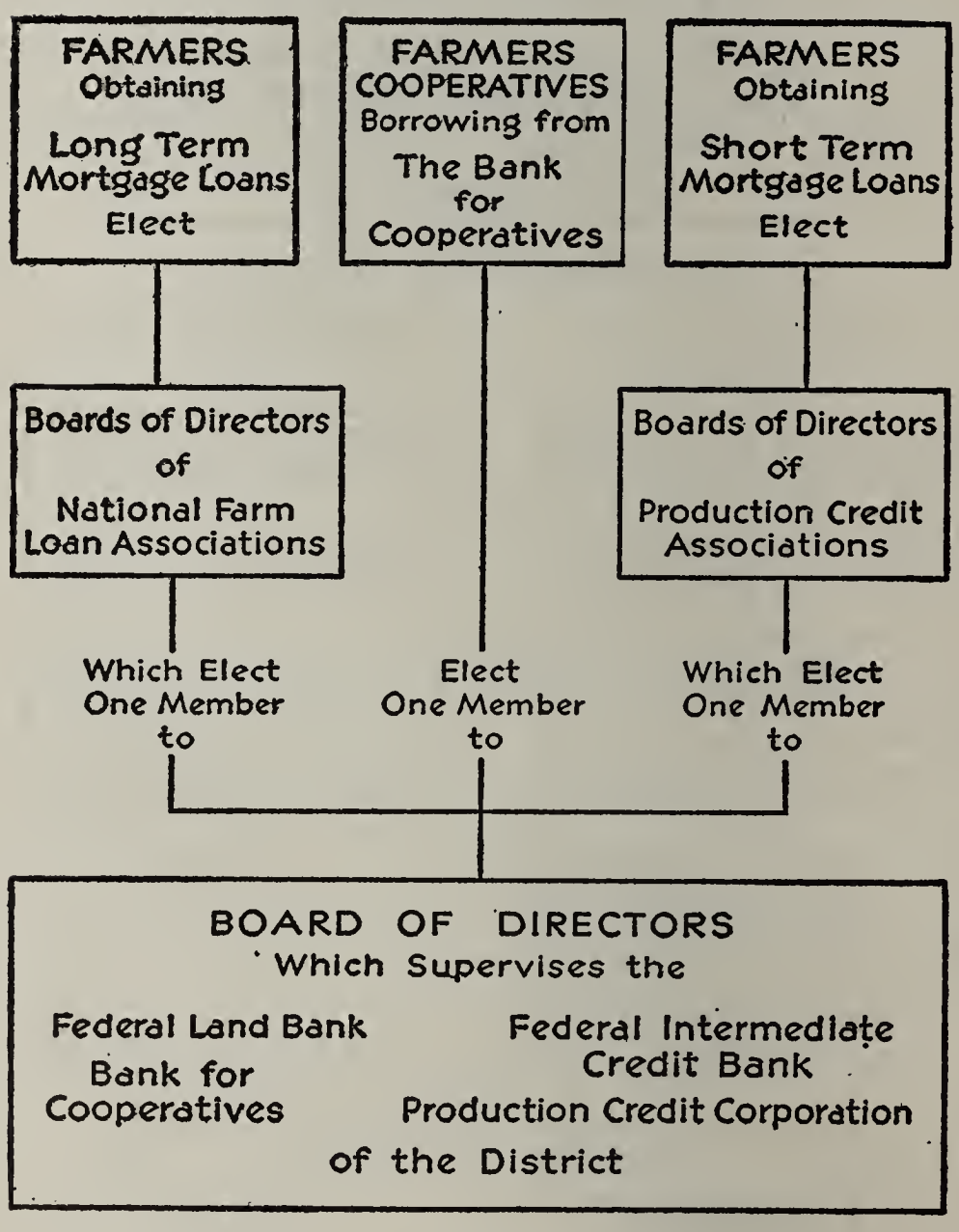


expected eventually to own them entirely. Since control and partial ownership of the credit institutions rest with the farmers, they will share in any profits made from their operations, after adequate reserves have been set aside for possible losses. Many farmers may decide it is advisable to apply such profits on their outstanding indebtedness.

The responsibility for the efficient management of the associations rests with the farmer-borrowers. Their success in choosing such management, together with their own cooperation in reducing costs by meeting payments promptly, will in a large measure affect the cost of their credit in the future.

All credit institutions under the Farm Credit Administration are endeavoring in every way possible not to increase the farmer's debt load, but to help him, by the efficient use of low-cost credit, gradually and systematically to pay off his debts and become sole owner of his farm business.

FARMERS BORROWING FROM THEIR COOPERATIVE CREDIT INSTITUTIONS SHARE IN THEIR CONTROL



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